

Audit and Inspection Plan

March 2007



Audit Plan

Hampshire Fire and Rescue Authority

Audit 2007/2008

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles.

- Auditors are appointed independently from the bodies being audited.
- The scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business.
- Auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998, the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

Status of our report

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any member or officer in their individual capacity; or
- any third party.

Copies of this report

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Introduction

- 1 This plan sets out the audit and inspection work we propose to undertake for the 2007/08 financial year. The plan is based on the Audit Commission's risk-based approach to audit planning and the requirements of the fire and rescue performance assessment framework which reflects:
 - audit and inspection work specified by the Audit Commission for 2007/08;
 - current national risks relevant to your local circumstances; and
 - your local risks and improvement priorities.
- 2 As we have not yet completed our audit for 2006/07, the audit planning process for 2007/08, including the risk assessment, will continue as the year progresses, and the information and fees in this plan will be kept under review and updated as necessary.

Responsibilities

- 3 We comply with the statutory requirements governing our audit and inspection work, in particular:
 - the Audit Commission Act 1998;
 - the Local Government Act 1999;
 - the Fire and Rescue Services Act 2004; and
 - the Code of Audit Practice (the Code).
- 4 The Code defines auditors' responsibilities in relation to:
 - the financial statements (including the statement on internal control (SIC)); and
 - the audited body's arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 5 The Audit Commission's Statement of responsibilities of auditors and of audited bodies sets out the respective responsibilities of the auditor and the Authority. The Audit Commission has issued a copy of the Statement to every audited body.
- 6 The Statement summarises where the different responsibilities of auditors and of the audited body begin and end, and our work is undertaken in the context of these responsibilities.

Fire and rescue performance assessment framework

- 7 The Audit Commission's fire and rescue performance assessment framework is underpinned by the principle of targeting our work where it will have the greatest effect.
- 8 Our inspection activity for 2007/08 will consist of the following.

Inspection activity	Reason/impact
Relationship Manager (RM) role	To act as the Commission's primary point of contact and the interface at the local level between the Commission and the other inspectorates, government offices and other key stakeholders.
Direction of travel (DoT) assessment	An annual scored assessment, carried out by the RM, of improvement or deterioration in performance. The assessment will be outcome-focused and will draw together other assessments of the Authority. The DoT label will be reported in the performance assessment framework scorecard in March 2008.
Service assessment	A scored assessment which has an emphasis on service delivery. It includes a performance information element, and an operational assessment of service delivery provided by Communities and Local Government. The service assessment will be reported in the performance assessment framework scorecard published in March 2008.

Work under the Code of Audit Practice

Financial statements

- 9 We will carry out our audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB).
- 10 We are required to issue an opinion on whether the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the Authority as at 31 March 2008 and its income and expenditure for the year.
- 11 We are also required to review whether the SIC has been presented in accordance with relevant requirements, and to report if it does not meet these requirements or if the SIC is misleading or inconsistent with our knowledge of the Authority.

Use of resources - Value for money conclusion

- 12 The Code requires us to issue a conclusion on whether the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion. The Code also requires auditors to have regard to a standard set of relevant criteria, issued by the Audit Commission, in arriving at their conclusion.
- 13 In meeting this responsibility, we will review evidence that is relevant to the Authority's corporate performance management and financial management arrangements. Where relevant work has been undertaken by other regulators we will normally place reliance on their reported results to inform our work.
- 14 We will also follow up our work from previous years to assess progress in implementing agreed recommendations.

Use of resources assessment

- 15 The Audit Commission has specified that auditors will complete a use of resources assessment for 2007/08 based on an update of the 2006/07 assessment. The use of resources assessment evaluates how well the Authority manages and uses its financial resources. It focuses on the importance of having sound and strategic financial management to ensure that resources are available to support the Authority's priorities and improve services.
- 16 The work required to arrive at the use of resources assessment is fully aligned with that required to arrive at the auditor's value for money conclusion.

- 17 We will arrive at a score of 1 to 4, based on underlying key lines of enquiry, for each of the following themes.

Table 1 Use of Resources assessment

Heading	Themes
Financial reporting	<ul style="list-style-type: none"> • preparation of financial statements; and • external reporting.
Financial management	<ul style="list-style-type: none"> • medium-term financial strategy; • budget monitoring; and • asset management.
Financial standing	<ul style="list-style-type: none"> • managing spending within available resources.
Internal control	<ul style="list-style-type: none"> • risk management; • system of internal control; and • probity and propriety.
Value for money	<ul style="list-style-type: none"> • achieving value for money; and • managing and improving value for money.

- 18 We will report details of the scores and the judgements made to the Authority. The scores will be accompanied, where appropriate, by recommendations of what the Authority needs to do to improve its performance.
- 19 The auditor's scores and judgements are reported to the Audit Commission to feed into the fire and rescue performance assessment framework. The use of resources assessment will be reported in the performance assessment framework scorecard published in March 2008.

Best Value Performance Plan

- 20 We are required to carry out an audit of your best value performance plan (BVPP) and report on whether it has been prepared and published in accordance with legislation and statutory guidance.

Assessing risks

- 21 The Audit Commission is committed to targeting its work where it will have the greatest effect, based upon assessments of risk and performance. This means planning our audit work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees. It also means making sure that our work is co-ordinated with the work of other regulators, and that our work helps you to improve.
- 22 Our risk assessment process starts with the identification of the significant financial and operational risks applying at the Authority with reference to:
- our cumulative knowledge of the Authority;
 - planning guidance issued by the Audit Commission;
 - the specific results of previous and ongoing audit work;
 - interviews with Authority officers;
 - liaison with internal audit; and
 - The results of other review agencies' work where relevant.

We have not included a risk assessment for our audit of the financial statements as many of the specific risks may not become apparent until after we have completed our 2006/07 audit. We will issue a separate opinion audit plan for our audit of the financial statements in November 2007.

- 23 For each of the significant risks identified in relation to our use of resources work, we consider the arrangements put in place by the Authority to mitigate the risk, and plan our work accordingly.
- 24 Our initial risk assessment for use of resources work is provided in Appendix 1. This will be updated through our continuous planning process as the year progresses.

Work specified by the Audit Commission

Data quality

- 25 The Audit Commission is considering whether to specify work for 2007/08 on data quality at Fire Authorities. This would be in addition to the high-level review of management arrangements for ensuring data quality that is already undertaken to inform the value for money conclusion. The Commission will consult before confirming the approach for 2007/08.

Whole of government accounts (WGA)

- 26 We will be required to review and report on your WGA consolidation pack in accordance with the approach agreed with HM Treasury and the National Audit Office.

National Fraud Initiative

- 27 The Authority participates in the National Fraud Initiative which is the Audit Commission's computerised data matching exercise designed to detect fraud perpetrated on public bodies. This work will be carried out by an individual appointed to assist in the audit of the Authority's accounts (in accordance with section 3(9) of the Audit Commission Act 1998).

Voluntary improvement work

- 28 Under section 35 of the Audit Commission Act 1998, the Commission may undertake voluntary improvement work at the request of the audited body. At this stage, the Authority has not requested that we undertake voluntary improvement work for 2007/08.

The audit fee

- 29 The details of the structure of scale fees are set out in the Audit Commission's work programme and fee scales 2007/08. Scale fees are based on a number of variables, including the type, size and location of the audited body.
- 30 The total indicative fee for the audit work included in this audit plan for 2007/08 is £67,385 which compares with the planned fee of £65,491 for 2006/07.
- 31 Further details are provided in Appendix 2 which includes a breakdown of the fee; specific audit risk factors; the assumptions made when determining the audit fee, for example, the timeliness and quality of draft accounts presented for audit and the supporting working papers; specific actions Hampshire FRA could take to reduce its audit fees; and the process for agreeing any changes to the fee. The audit fee includes all work identified in this plan unless specifically excluded.
- 32 As indicated earlier, the audit planning process will continue as the year progresses and it is possible that there will be some changes to our planned work and hence to the indicative fee quoted in the paragraph above. Any changes to the fee will be agreed with you.

Other information

The audit team

- 33 The key members of the audit team for the 2007/08 audit are shown in the table below.

Table 2

Name	Contact details	Responsibilities
Stephen Taylor Relationship Manager	s-taylor@audit-commission.gov.uk 0844 798 1749	The primary point of contact with the Authority and the interface at the local level between the Commission and other key stakeholders.
Stephen Taylor District Auditor	s-taylor@audit-commission.gov.uk 0844 798 1749	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Governance committee and senior officers including as appropriate the Chief Officer and the Director of Corporate Services.
Graham West Audit Manager	g-west@audit-commission.gov.uk 01252 398061	Manages and co-ordinates the different elements of the audit work. Key point of contact for the Treasurer (HCC based).
Charlotte Smith Regional Service Lead	ch-smith@audit-commission.gov.uk 0844 798 4647	Responsible for the delivery of the value for money theme of the use of resources assessment, and elements of the direction of travel assessment.
Pamela Smith Principal Auditor	pp-smith@audit-commission.gov.uk 0844 798 4646	Co-ordinates different elements of the audit work with Authority finance staff. Key point of contact for Authority finance staff.

Independence and objectivity

- 34 We are not aware of any relationships that may affect the independence and objectivity of the District Auditor and the audit staff, which we are required by auditing and ethical standards to communicate to you.
- 35 We comply with the ethical standards issued by the APB and with the Commission's requirements in respect of independence and objectivity as summarised at Appendix 3.

Quality of service

- 36 We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact the District Auditor in the first instance. Alternatively you may wish to contact the South Central Region Head of Operations, Neil Childs.
- 37 If we are unable to satisfy your concerns, you have the right to make a formal complaint to the Audit Commission. The complaints procedure is set out in the leaflet *Something to Complain About* which is available from the Commission's website or on request.

- 38 Our reports will be discussed and agreed with the appropriate officers before being issued to the audit committee. We will only produce a report in situations where this will add value following completion of a piece of work.

Table 3

Planned output	Indicative date
Data Quality report (if needed)	October 2007
Opinion audit plan	November 2007
BVPP report	December 2007
Interim audit memorandum (if needed)	May 2008
Annual governance report	September 2008
Opinion on the financial statements and value for money conclusion	September 2008
Final accounts memorandum	October 2008
Use of Resources commentary	December 2008
Direction of Travel commentary	December 2008
Annual audit and inspection letter	December 2008

Appendix 1 – Initial risk assessment – use of resources

Significant risks identified	Mitigating action by audited body	Residual audit risk	Action in response to residual audit risk	Link to auditor’s responsibilities
The transition to a Regional Control Centre and introduction of Fire Link could adversely impact on HFRS operations.	Regional/ HFRS project management plans in place.	Yes	We will liaise on progress made/ review project management at Regional/ HFRS levels and respond as appropriate.	VFM conclusion Use of Resources - KLOE 4.1 The authority manages its significant business risks.
HFRS have a number of major projects to manage (such as workshop relocation).	HFRS have managed similar projects in past and have increased management capacity to focus on major projects.	Yes	We will continue to liaise on progress made/review project management approaches.	VFM conclusion Use of Resources - KLOE 4.1 The authority manages its significant business risks.
Increasing emphasis on partnership working (for example within Local Area Agreement) and need for effective governance arrangements.	HFRS active in a number of partnerships. Have reviewed arrangements and have a good track record.	Yes	Review framework for governance of partnerships to enable judgements to be made.	VFM conclusion Use of Resources - KLOE 4.1 The authority manages its significant business risks.

16 Audit Plan | Appendix 1 – Initial risk assessment – use of resources

Significant risks identified	Mitigating action by audited body	Residual audit risk	Action in response to residual audit risk	Link to auditor’s responsibilities
HFRS needs to address the diversity and user focus agenda as this is acknowledged as a national issue.	Initiatives in place to address equalities and diversity within the service and across the community.	Yes	Assess progress in time to inform the Use of Resources Judgement and VFM conclusion.	VFM conclusion Use of Resources - KLOE 4.1 The authority manages its significant business risks.
Increasing emphasis on environmental issues and impact on service delivery.	Undertaking BVR early in year on sustainable issues.	Yes	Will act as ‘critical friend’ during BVR process.	VFM conclusion Use of Resources - KLOE 4.1 The authority manages its significant business risks.

Appendix 2 – Audit fee

- 1 Table 4 provides details of the planned audit and inspection fee for 2007/08 with a comparison to the planned fee for 2006/07.

Table 4

Audit area	Planned fee 2007/08 £	Planned fee 2006/07 £
Audit		
Financial statements	39,556	38,709
Use of resources (prescribed and local risk)	25,728	25,032
Whole of government accounts	1,751	1,751
National Fraud Initiative*	350	0
Total audit fee	67,385	65,492
Inspection		
Relationship Management	7,465	7,591
Less: grant	(7,465)	(7,591)
Direction of Travel	8,958	14,828
Less: grant	(8,958)	(14,828)
Total audit and inspection fee	67,385	65,492
[Voluntary improvement work]	0	0

* billed separately

- 2 The fee for 2007/08 is a 2.9 per cent per cent increase over the previous year. The Audit Commission basic scale fee for Hampshire Fire is £62,618 for a CPA 'good' authority and the 2007/08 fee of £67,385 is within the normal level of variation specified by the Commission.
- 3 The Audit Commission has the power to determine the fee above or below the scale fee where it considers that substantially more or less work is required than envisaged by the scale fee. The Audit Commission may, therefore, adjust the scale fee to reflect the actual work that needs to be carried out to meet the auditor's statutory responsibilities, on the basis of the auditor's assessment of risk and complexity at a particular body.

- 4 It is a matter for the auditor to determine the work necessary to complete the audit and, subject to approval by the Audit Commission, to seek to agree an appropriate variation to the scale fee with the FRA. The Audit Commission expects normally to vary the scale fee by no more than 30 per cent (upwards or downwards). This fee then becomes payable.
- 5 The fee (plus VAT) will be charged in 12 equal instalments from April 2007 to March 2008.

Specific audit risk factors

- 6 In setting the audit fee we have taken into account the following specific risk factors:
 - progress on corporate priorities will be achieved as planned;
 - our assumption that no major new risks emerge;
 - accounts preparation will continue to be to a high standard and address SORP requirements; and
 - the quality and level of coverage of internal audit work will be maintained.

Assumptions

- 7 In setting the fee, we have assumed that:
 - the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2006/07;
 - you will inform us of significant developments impacting on our audit;
 - internal audit meets the appropriate professional standards;
 - internal audit undertakes appropriate work on all systems that provide material figures in the financial statements sufficient that we can place reliance for the purposes of our audit;
 - good quality working papers and records will be provided to support the financial statements by early July 2008;
 - requested information will be provided within agreed timescales; and
 - prompt responses will be provided to draft reports.
- 8 Where these assumptions are not met, we will be required to undertake additional work which is likely to result in an increased audit fee. The fee for the audit of the financial statements will be re-visited when we issue the opinion audit plan.

- 9 Changes to the plan will be agreed with you. These may be required if:
- new residual audit risks emerge;
 - additional work is required of us by the Audit Commission or other regulators; and
 - additional work is required as a result of changes in legislation, professional standards or as a result of changes in financial reporting.

Specific actions the Authority could take to reduce its audit fees

- 10 The Audit Commission requires its auditors to inform an authority of specific actions it could take to reduce its audit and inspection fees. We have identified the following actions the Authority could take.
- Address recommendations made in earlier reports.
 - Ensure accounts preparation complies with SORP requirements and is to a high standard.

Process for agreeing any changes in audit fees

- 11 If we need to make any significant amendments to the audit fee during the course of this plan, we will firstly discuss this with the Director of Corporate Services. We will then prepare a report outlining the reasons why the fee needs to change for discussion with the Governance Committee.

Appendix 3 – Independence and objectivity

- 1 Auditors appointed by the Audit Commission are required to comply with the Commission's Code of Audit Practice and Standing Guidance for Auditors, which defines the terms of my appointment. When auditing the financial statements auditors are also required to comply with auditing standards and ethical standards issued by the Auditing Practices Board (APB).
- 2 The main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards are summarised below.
- 3 International Standard on Auditing (UK and Ireland) 260 (Communication of audit matters with those charged with governance) requires that the appointed auditor:
 - discloses in writing all relationships that may bear on the auditor's objectivity and independence, the related safeguards put in place to protect against these threats and the total amount of fee that the auditor has charged the client; and
 - Confirms in writing that the APB's ethical standards are complied with and that, in the auditor's professional judgement, they are independent and their objectivity is not compromised.
- 4 The standard defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case, the appropriate addressee of communications from the auditor to those charged with governance is the Governance Committee. The auditor reserves the right, however, to communicate directly with the authority on matters which are considered to be of sufficient importance.
- 5 The Commission's Code of Audit Practice has an overriding general requirement that appointed auditors carry out their work independently and objectively, and ensure that they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. In particular, appointed auditors and their staff should avoid entering into any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.

- 6 The Standing Guidance for Auditors includes a number of specific rules. The key rules relevant to this audit appointment are as follows.
- Appointed auditors should not perform additional work for an audited body (ie work over and above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might give rise to a reasonable perception that their independence could be compromised. Where the audited body invites the auditor to carry out risk-based work in a particular area that cannot otherwise be justified as necessary to support the auditor’s opinion and conclusions, it should be clearly differentiated within the audit plan as being ‘additional work’ and charged for separately from the normal audit fee;
 - auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission;
 - the District Auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every five years;
 - the District Auditor and senior members of the audit team are prevented from taking part in political activity on behalf of a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body; and
 - the District Auditor and members of the audit team must abide by the Commission’s policy on gifts, hospitality and entertainment.

Appendix 4 – Working together

Meetings

- 1 In order to help address our responsibilities under ISA (UK&I) 315 - understanding the entity, we will maintain our knowledge of your issues to inform our risk based audit through regular liaison with key officers.
- 2 The meetings will be organised by the Audit Commission and our proposal for this is as follows.

Table 5 Proposed liaison arrangements

Council officers	Audit Commission staff	Timing	Purpose
Chief Officer, Director of Corporate Services, Service Accountant.	RM/DA, AM, LPL	Quarterly	General update plus: <ul style="list-style-type: none"> • April - audit plan; • August - accounts progress; • November - use of resources; and • February - direction of travel.
Treasurer/ Audit Manager	AM and TL	Quarterly	Update on audit and opinion issues
Finance and General Purposes/ Governance Committees.	DA and AM, with TL and/or LPL as appropriate	Quarterly	Formal reporting of: <ul style="list-style-type: none"> • Audit Plan; • Annual governance report; • Annual audit letter; and • Other issues as appropriate.

Source: Audit Commission

Working paper requirements

- 3 We will agree our working paper requirements for the accounts audit with the Service Accountant in advance of the accounts closedown process.